



BUY - \$2.30

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Regional Express Holdings (REX)

Climbing to a new altitude

Company Data

ASX Code	REX
Price	\$2.32
12 month price target	\$2.71
12 month dividend yield	3.24%
Implied return	19.85%
Shares on issue	115m
Market capitalisation	\$266.8m
12 Month price range	\$1.62 - \$0.96
Monthly turnover	4.15m

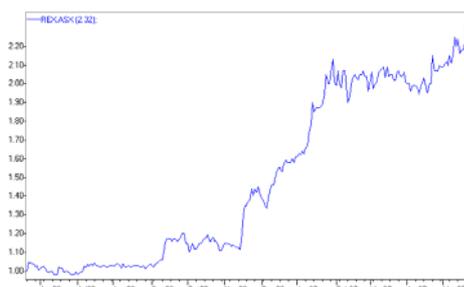
Forecast Changes

	2007f	2008f	2009f
NPAT			
EPS			
DPS			

Earnings Summary

Yr to 30 June	2006	2007F	2008F	2009F
Lodge adj profit	13.6	21.6	28.4	32.9
Rep. Profit _(pre-sia)	13.6	21.6	28.4	32.9
EPS _{adj} (¢)	13.3	18.8	24.1	27.2
EPS growth	20.0%	40.9%	28.2%	12.8%
P/E ratio	17.4 x	12.3 x	9.6 x	8.5 x
DPS (¢)	5.0	7.5	9.6	10.9
Yield	2.2%	3.2%	4.2%	4.7%
Franking	0%	0%	0%	0%
Payout ratio	33%	40%	40%	40%
EV / EBITAR	15.5 x	8.8 x	7.3 x	6.1 x
EV / EBITDAR	9.4 x	6.5 x	5.0 x	4.2 x
CFPS (¢)	27.4	29.4	34.2	36.3
Price / CF	8.5 x	7.9 x	6.8 x	6.4 x
NTA per share	\$0.59	\$0.61	\$0.82	\$1.00
Pr / NTA	3.9 x	3.8 x	2.8 x	2.3 x

Share Price Chart



REX reports its 3qFY07 result on May 30th. Lodge Partners expect a strong result given capacity and yield growth amplified by a rising AUD/USD and a moderating oil price. Our valuation of \$2.71 implies only 5.8x EBITDAR, a significant discount to global peers.

Partnering the bush: Low prices and high service levels through REX mainline form a unique value proposition to customers in regional NSW, Victoria and South Australia.

Ramping up the capacity: REX mainline continues to increase capacity through flying new routes and increasing frequencies. CAGR ASK (available seat kilometre) growth for FY04-FY06 was 15.2%. With the recent decision to lease a further 25 Saab 340plus aircraft we forecast ASK growth of CAGR 18.1% between FY06-FY09.

Expanding those yields: Simply, customers are embracing REX mainline's product offering with demand outstripping supply growth. At the end of February 2007, cumulative load factors were up 2.2% despite ASK growth of 11.4% over the same period. CAGR RASK (or yield) growth for FY04-FY06 was 6.4%. We forecast modest yield growth of CAGR 2.2% between FY06-FY09 through higher load factors partly offset by declining prices. Together, ASK and yield growth are major profit drivers for REX.

Come on Aussie: Exchange rates and the oil price have a significant impact on REX's profitability, with a lower oil price and higher AUD/USD beneficial for REX due to significant fuel purchases and aircraft leasing costs all paid in USD. Currently, the oil price is down 1.8% on pcp and the AUD is up 5.1% on pcp. A \$1 movement in the oil and 1¢ movement in the AUD/USD each have a 1% impact on our EBITDAR forecasts.

Spreading the wings: REX's PEL-Air subsidiary operates a niche charter and freight business across the eastern seaboard. Representing ~18.5% of our EBITDAR forecasts in FY07, we expect PEL-Air to continue to seek new avenues for growth in this sector.

Strong capital position: REX is debt free and in our view will continue to remain in that position despite increasing its capacity substantially over the period FY07-FY09. New aircraft are being financed using operating leases, while Aircraft purchased are depreciated at a much faster pace than their economic life (resulting in net profit on final sale).

Potential earnings surprise: REX stated that NPAT growth would be at least 20% for FY07 in mid November 2006 (which implies NPAT of \$18.8m and EPS of 16.3c). We see this as a minimum rate. In our view this year REX could reasonably expect to achieve NPAT of at least \$21.7m due to the improvement of REX mainline, the inclusion of PEL-Air, the appreciation of the AUD/USD and a moderating oil price. REX reports its 3qFY07 results on May 30th 2007.

Valuation multiples are low: REX is trading on 12.3x FY07 EPS and 6.5x EBITDAR. Rolling our forecasts forward to FY08, the multiples are 9.6x PE and 5.0x EV/EBITDAR. Our valuation of \$2.71 implies an FY08 PE of 11.2 and 5.8x EBITDAR. We note that global major airlines trade at forward multiples of ~6.9x EBITDAR and global low cost carriers trade at 9.0x EBITDAR.

Regional Express Holdings (REX: \$2.32)

Mkt Cap: \$266.8m



Valuation data

Year ending Jun	2005	2006	2007F	2008F	2009F
Lodge adj profit	6.5	13.6	21.6	28.4	32.9
Reported profit (pre-sig iter)	6.5	13.6	21.6	28.4	32.9
EPS pre goodwill (¢)	11.1	13.3	18.8	24.1	27.2
EPS growth	n.a.	20.0%	40.9%	28.2%	12.8%
P/E ratio	20.9 x	17.4 x	12.3 x	9.6 x	8.5 x
DPS (¢)	0.0	5.0	7.5	9.6	10.9
Yield	0.0%	2.2%	3.2%	4.2%	4.7%
Franking	0.0%	0.0%	0.0%	0.0%	0.0%
Payout ratio	0%	33%	40%	40%	40%
EV / EBITAR	31.6 x	15.5 x	8.8 x	7.3 x	6.1 x
EV / EBITDAR	14.8 x	9.4 x	6.5 x	5.0 x	4.2 x
CFPS (¢)	5.3	27.4	29.4	34.2	36.3
Price / CF	43.4 x	8.5 x	7.9 x	6.8 x	6.4 x
NTA per share	\$0.32	\$0.59	\$0.61	\$0.82	\$1.00
Pr / NTA	7.2 x	3.9 x	3.8 x	2.8 x	2.3 x

Balance sheet (\$M)

Year ending Jun	2005	2006	2007F	2008F	2009F
Cash	4.5	23.6	17.9	28.9	57.7
Receivables	11.7	8.6	12.0	14.7	16.4
Inventories	3.1	4.1	6.0	7.4	8.2
Other	0.0	0.0	4.1	4.1	4.1
Current assets	19.4	36.3	40.0	55.1	86.5
Net PPE	28.9	45.6	80.3	100.3	95.6
Investments	0.0	14.3	0.0	0.0	0.0
Goodwill	0.2	0.8	10.1	14.3	14.3
Other intangibles	6.8	3.3	3.3	3.3	3.3
Other	0.0	0.0	0.0	0.0	0.0
Non-current assets	35.9	64.0	93.7	117.9	113.2
Total assets	55.3	100.3	133.7	173.0	199.7
Debt	4.7	0.0	7.1	7.1	7.1
Provisions	5.2	5.3	5.3	5.3	5.3
Other	23.0	26.2	39.7	47.5	52.3
Total liabilities	32.8	31.5	52.1	59.9	64.8
Equity / reserves	36.6	67.2	67.2	81.1	81.1
Retained profits	(14.2)	1.6	12.6	32.0	53.8
Total s/h funds	22.4	68.8	81.6	113.1	134.9
Minorities	0.0	0.0	1.8	0.0	0.0
Total funds emp.	22.5	45.2	70.7	91.3	84.3

Ratio analysis

Year ending Jun	2005	2006	2007F	2008F	2009F
EBITDA / sales	14.8%	17.8%	18.3%	19.4%	20.2%
EBITAg / sales	12.9%	15.3%	16.1%	16.6%	17.6%
EBIT / sales	6.9%	10.7%	13.4%	13.4%	13.8%
Return on assets	19.3%	23.7%	28.2%	27.9%	32.4%
Return on equity	29.1%	19.8%	28.7%	25.1%	24.4%
Return on funds emp.	86.9%	53.7%	56.3%	49.6%	52.3%
Net debt / (cash) (\$M)	0.1	(23.6)	(10.8)	(21.8)	(50.6)
Debt / equity	20.8%	0.0%	8.7%	6.3%	5.3%
Net debt / equity	0.5%	(34.3%)	(13.3%)	(19.3%)	(37.5%)
Interest cover	15.6 x	n.a.	n.a.	n.a.	n.a.

Profit and loss (\$M)

Year ending Jun	2005	2006	2007F	2008F	2009F
Sales revenue	144.5	175.4	242.7	298.6	333.3
<i>growth over pcp</i>	<i>28.6%</i>	<i>19.5%</i>	<i>43.0%</i>	<i>23.0%</i>	<i>11.6%</i>
EBITDAR	21.0	30.1	44.4	57.9	67.4
Dep'n and amort'n	(2.6)	(4.2)	(5.3)	(8.3)	(8.7)
EBITAR	18.3	25.9	39.1	49.6	58.7
Aircraft leases	(8.5)	(7.7)	(6.5)	(9.5)	(12.8)
EBIT	9.8	18.2	32.6	40.2	45.9
<i>growth over pcp</i>	<i>100.0%</i>	<i>85.8%</i>	<i>79.2%</i>	<i>23.1%</i>	<i>14.3%</i>
Net interest expense	(0.6)	0.9	0.8	0.5	1.1
Pre-tax profit	9.2	19.1	33.4	40.6	47.0
Tax	(2.6)	(5.5)	(10.0)	(12.2)	(14.1)
<i>Effective tax rate</i>	<i>28.8%</i>	<i>28.7%</i>	<i>30.0%</i>	<i>30.0%</i>	<i>30.0%</i>
Preference dividends	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	1.8	0.0	0.0
Lodge adjustments	0.0	0.0	0.0	0.0	0.0
Lodge adj profit	6.5	13.6	21.6	28.4	32.9
Reported profit (pre sig iter)	6.5	13.6	21.6	28.4	32.9
One-off items (post tax)	0.0	2.1	0.3	1.4	1.4
Reported net profit	6.5	15.7	21.9	29.8	34.3

Cashflow (\$M)

Year ending Jun	2005	2006	2007F	2008F	2009F
EBIT	9.8	18.2	32.6	40.2	45.9
Net interest paid	(0.8)	(0.1)	0.8	0.5	1.1
Dep'n and amort'n	2.6	4.2	5.3	8.3	8.7
Tax paid	0.0	0.0	(10.0)	(12.2)	(14.1)
Gross cash from op'ns	11.6	22.3	28.7	36.7	41.6
(Inc) / dec in wk'g cap	7.1	3.8	5.1	3.7	2.3
(Inc) / dec in provisions	6.3	1.7	0.0	0.0	0.0
Other	(21.8)	0.3	0.0	0.0	0.0
Operating cashflow	3.1	28.0	33.8	40.4	43.9
<i>growth over pcp</i>	<i>0.0%</i>	<i>412.6%</i>	<i>7.3%</i>	<i>16.4%</i>	<i>6.0%</i>
Investing cashflows					
Capital expenditure	(15.1)	(18.2)	(23.9)	(22.3)	(6.0)
Asset sales	0.0	0.0	0.0	0.0	0.0
Investments	0.0	(14.4)	(6.0)	(13.9)	0.0
Divestments	6.4	1.5	1.4	3.4	3.4
Other	0.0	(3.0)	0.0	0.0	0.0
Financing cashflows					
Equity raised	4.2	32.1	0.0	13.9	0.0
Dividends paid	0.0	0.0	(10.9)	(10.5)	(12.4)
Chg in loans	4.6	(7.0)	0.0	0.0	0.0
Other non-op flows	0.0	0.0	0.0	0.0	0.0
Net chg in cash	3.2	19.0	(5.6)	11.0	28.8

Interims (\$M)

Half yearly	1h05	2h05	1h06	2h06	1h07
Sales revenue	64.5	80.0	84.1	91.3	102.4
EBITDA	9.5	11.5	17.2	12.9	17.6
EBIT	3.9	5.9	11.3	6.9	15.4
Lodge adj profit	2.5	4.0	8.2	5.4	11.5
Reported profit	2.7	3.9	9.3	4.3	11.5
EBIT / sales	6.1%	7.4%	13.5%	7.5%	15.1%
EPS (¢)	4.7	6.4	8.8	4.5	10.0
EPS growth on pcp	n.a.	n.a.	87.8%	(29.7%)	13.0%
DPS (¢)	0.0	0.0	0.0	5.0	0.0
% of FY EBIT	40%	60%	62%	38%	38%

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Recommendations are assessments of each Lodge Partners Analyst's view of potential total returns over a 1 year period.

Expected total Return is measured as (capital gain (or loss) + dividend)/purchase price

We have divided our recommendations into three main categories:

Buy: Expected Total Return in excess of 15% over a 1 year period.

Hold: Expected Total Return between 0% and 15% over a 1 year period.

Sell: Expected Total Return less than 0% over a 1 year period.

Analyst Verification

I verify that I, **Duncan Simmonds**, have prepared this research report accurately and that any financial forecasts and recommendations that are expressed are solely my own personal opinions. In addition, I certify that no part of my compensation is or will be directly or indirectly tied to the specific recommendation or financial forecasts expressed in this report.

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